



Director of
Central
Intelligence

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National Intelligence Daily

Monday
2 December 1985

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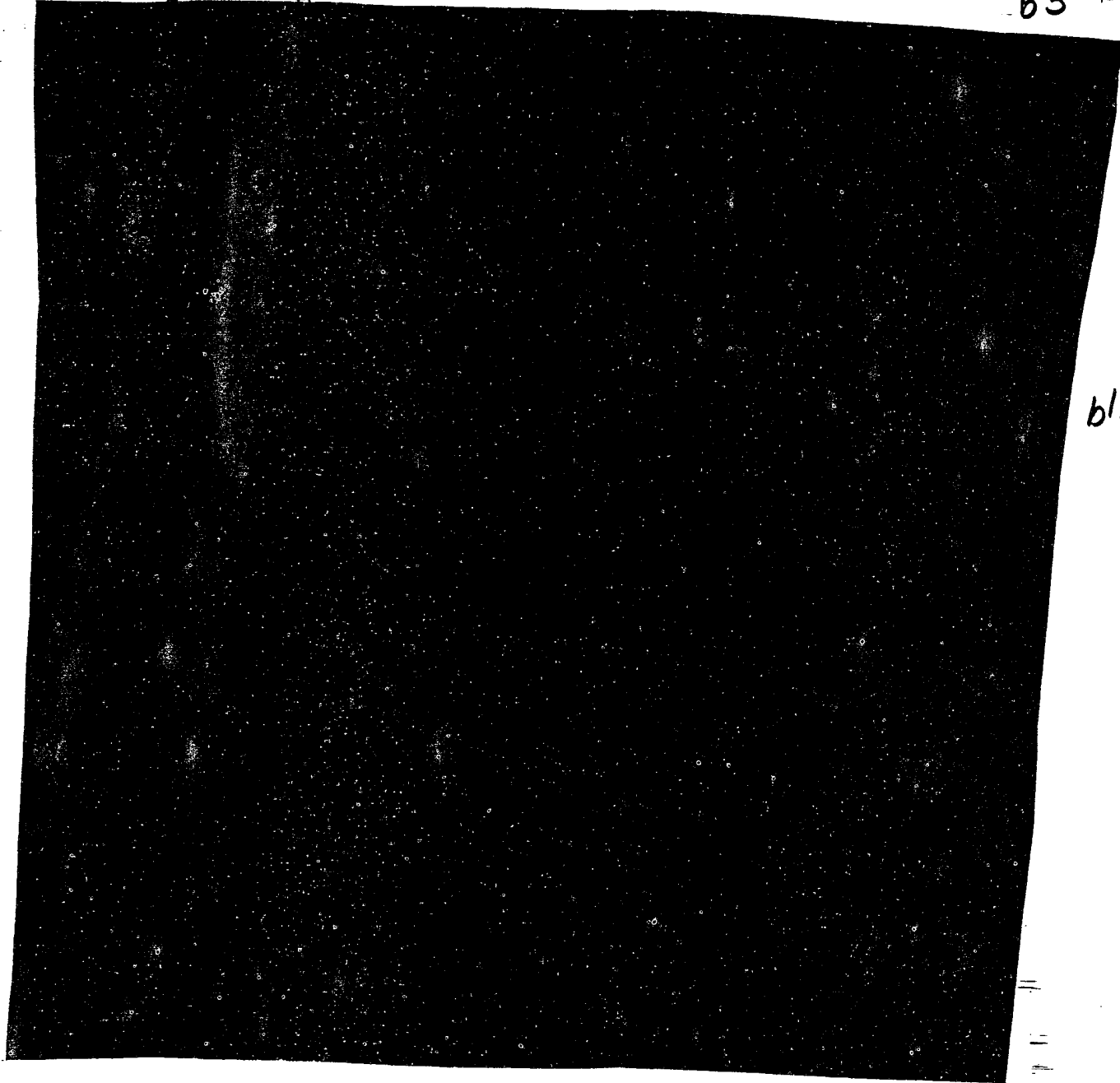
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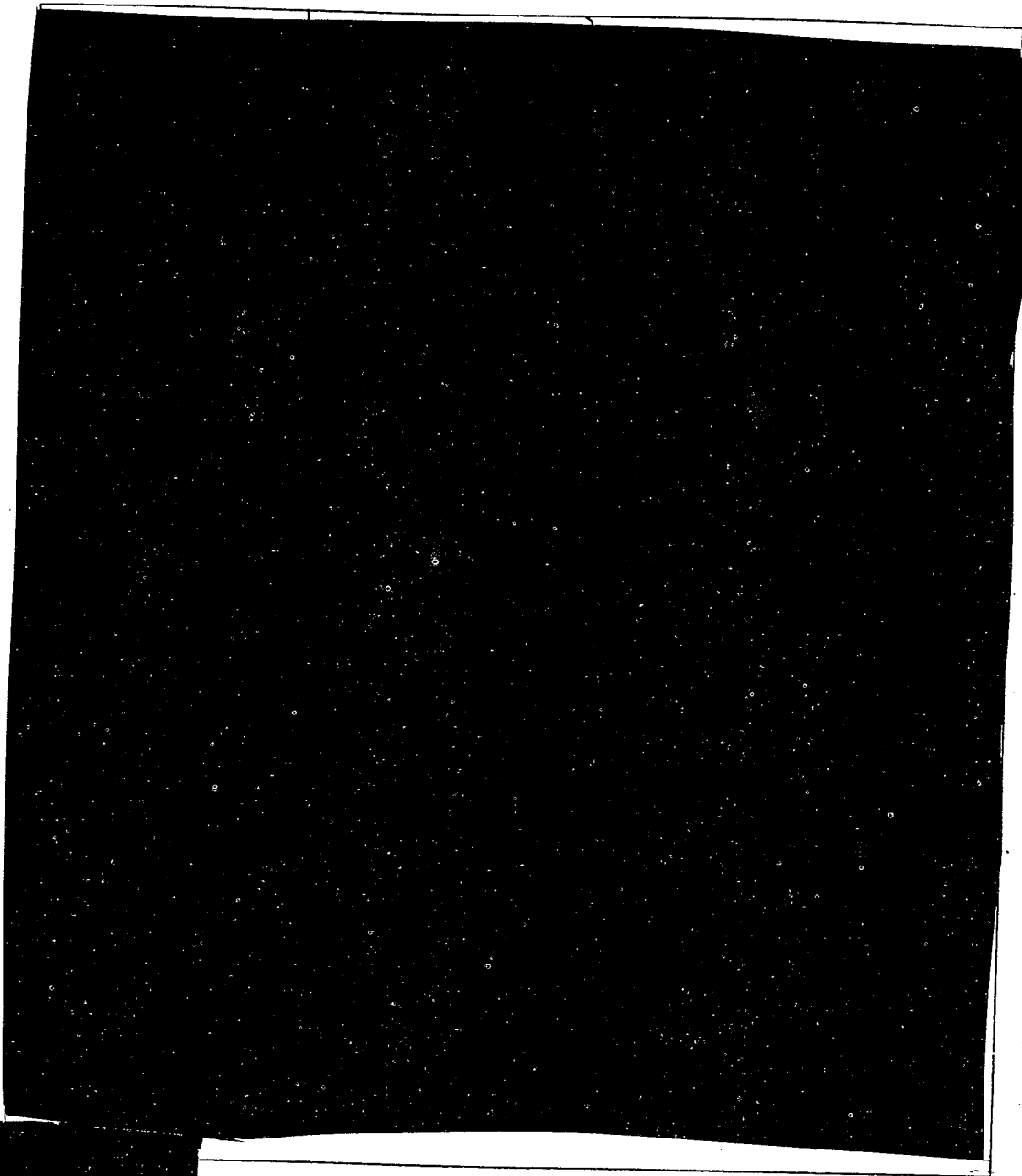
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SOUTH AFRICA:

Relations With Neighbors

Intensified terrorist attacks may provoke South African action against neighboring countries used as bases.

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South Africa has warned it may pursue insurgents into Zimbabwe if Harare does not act quickly to stop guerrillas from crossing into South Africa. The warning follows a rash of landmine explosions west of Messina, near the Zimbabwean border, that caused at least one death and a number of injuries.

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Pretoria would be likely to carry out its threat to pursue guerrillas if they continue escaping into Zimbabwe and would move against other neighboring states suspected of harboring guerrillas. Pretoria also may increase its support for dissident groups in

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IRAQ-SYRIA:

Countering Syrian Terrorism

Iraq claims to have smashed a Syrian-sponsored ring responsible for several bombings in Baghdad, but the Iraqis are holding off on any retaliation, apparently to keep open the possibility of a rapprochement with Damascus.

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Iraqi television highlighted the arrest of four Iraqi nationals said to have been responsible for three spectacular and deadly explosions in Baghdad in 1982 and 1983. In the broadcast, the four asserted that Syrian intelligence organized the attacks and that the ring had planned to set off more bombs during Shia religious celebrations last month.

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Recent efforts by Iraq and Syria to reconcile their differences have made no progress so far. Nonetheless, Baghdad probably calculates that frictions between Syria and Iran over oil supplies and other issues offer an opportunity to coax Damascus away from its support for the Iranian war effort.

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The Iraqis probably will revert to sponsoring terrorist attacks against Syria if Damascus proves obdurate on its backing for Iran and the reconciliation talks fail. The presence in Baghdad of PLO elements capable of mounting anti-Syrian operations may serve both as an implicit threat to Damascus and as an aid to Iraq in controlling such operations.

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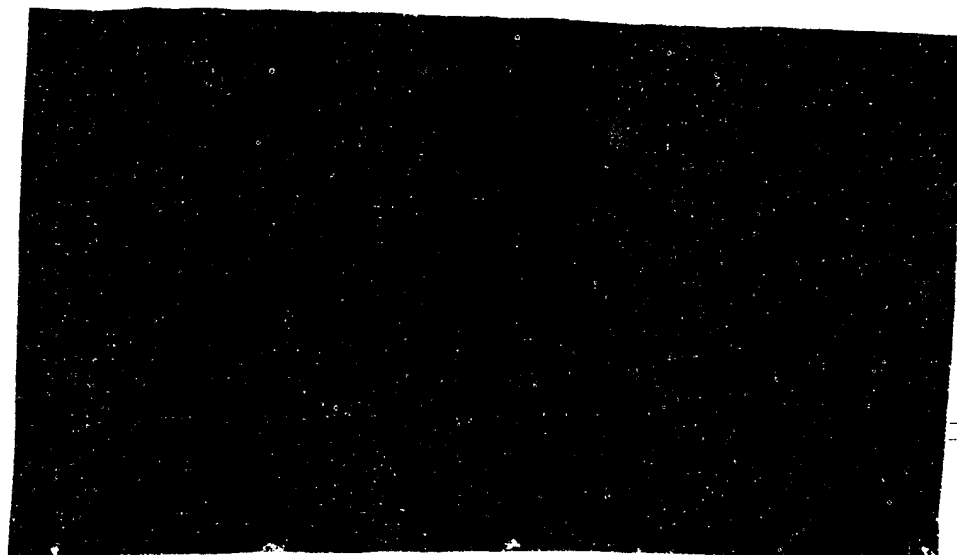
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BRAZIL: Going It Alone

Brasilia currently feels little pressure to conclude new IMF and debt agreements because of its strong balance-of-payments position. Finance Minister Funaro announced last week that Brazil will cease efforts to reach an IMF accord and to restructure its bank debt. Brasilia claims its fiscal reform program for 1986 is as tough as is politically feasible and that it will reduce the public-sector deficit substantially, although not as much as demanded by the Fund.

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The government evidently believes that most banks will continue to reschedule short-term credits and principal repayments next year if interest payments are met. With important national elections scheduled for late next year, Brasilia is likely to grant greater adjustment concessions to international creditors only if the inflation rate exceeds 250 percent.

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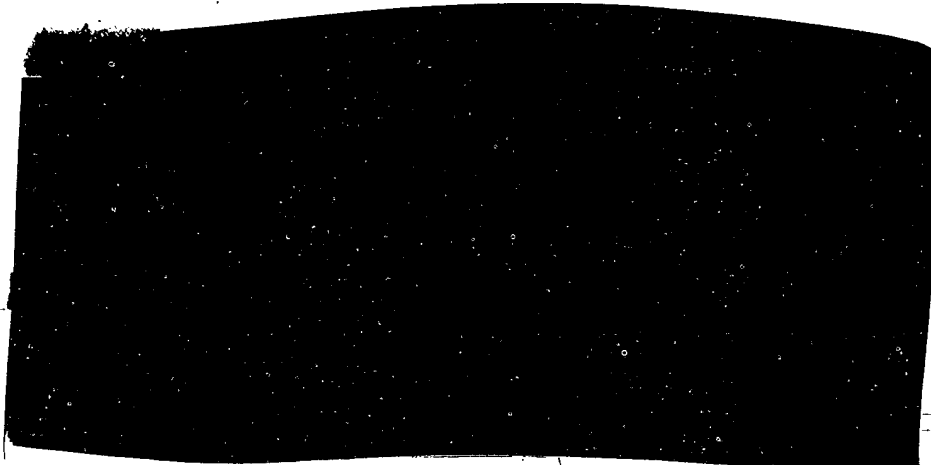
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In Brief

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Special Analysis

USSR-
PERSIAN GULF:

Implications of Expanding Relations

The USSR probably expects new opportunities for a more active role in the Persian Gulf after its recent success in establishing diplomatic relations with Oman and the United Arab Emirates. Tensions between Persian Gulf Arabs and the US will encourage Moscow to keep trying to court Saudi Arabia, Qatar, and Bahrain. The Persian Gulf states remain suspicious of Moscow's intentions in the region, but their more immediate concern is the Iran-Iraq war. Kuwait, the UAE, and to a lesser degree, Oman will look increasingly to Moscow for additional insurance against a threat from Iran or Iraq and to polish their nonaligned credentials.

The USSR probably views the decision by Oman and the UAE to establish relations as evidence that its policy of supporting Iraq in its war with Iran has paid off. It expects further successes in the Gulf but recognizes the difficulties.

establishing ties to Bahrain and Qatar may be more "problematic." the USSR is now satisfied with the state of relations with Saudi Arabia and implied that formal ties may eventually be possible.

Moscow probably hopes to exploit the doubts of the Gulf states about US commitments to their security. Soviet media have touted relations with Oman and the UAE as a sign of growing esteem for the USSR and disenchantment with the US. Polyakov recently visited Iraq and Kuwait, possibly to set the stage for reported visits by Soviet Defense Minister Sokolov to Kuwait and President Saddam Hussayn to Moscow.

The USSR also may try to expand its limited economic ties in the Gulf. Moscow may try to use a new agreement on economic cooperation with Kuwait signed last month to urge Oman and the UAE to open their markets to Soviet goods. In addition, the Soviets eventually may want more oil from the Gulf either to resell for hard currency or to supply their own clients as domestic oil production declines.

This could develop into a direct trade relationship should Riyadh wish one.

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Gulf Considerations

Reaction in the region to the latest signs of rapprochement with the USSR has been low key but positive. It has reflected a growing belief that being on good terms with both superpowers enhances regional security.

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Special Analysis

ANGOLA:

Upbeat Party Congress

President dos Santos, who will convene a party congress today—the third since Angolan independence—is politically stronger than at any time since assuming power in 1979 but more dependent than ever on the Soviets and Cubans. He will seek and easily gain strong backing from the ruling MPLA to continue the armed struggle against UNITA and South Africa, including a more vigorous military offensive next year.

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The MPLA leadership probably will interpret the success of the Army's recent offensive against UNITA as holding the promise of more success to come. UNITA presumably would like to carry out raids near the capital this week, but it failed to disrupt a meeting of the Nonaligned Movement in Luanda in September.

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Themes

Although the MPLA will endorse a military solution to the insurgency, it is unlikely to close the door on talks aimed at a regional settlement—such as the recent discussion in Lusaka, Zambia, with US representatives. Angola's increased dependence on Soviet military assistance will not make it easy for dos Santos to pursue serious negotiations at odds with Soviet interests.

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Dos Santos, by moving closer to Moscow, has undercut the hardliners.

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He is also likely to introduce reforms to broaden the party's limited appeal and to improve the economy, which, with the exception of the oil industry, is in shambles.

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Special Analysis

PLO:

Financial Difficulties

The PLO is experiencing increased financial strains that are forcing it to draw on reserves and curtail social welfare services it has traditionally provided to Palestinians. The PLO's money troubles are not diminishing its terrorist capabilities, however, because PLO chief Arafat is taking special measures to ensure the PLO's military remains well funded.

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The Palestine National Fund, the financial arm of the PLO, has publicly reported a current operating deficit of \$100 million, based on planned expenditures of around \$250 million. The PLO's military, industrial, and social welfare wings have suffered heavy financial losses in the past few years, first as a result of Israel's invasion of Lebanon and more recently because of attacks by Syrian-sponsored Shias on Palestinian refugee camps in Beirut. The dispersal of PLO fighters from Lebanon to various Arab states three years ago has also raised military costs substantially.

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Arab contributions have fallen with declining oil incomes and the need to finance the Iran-Iraq war. Representatives of seven Arab states met in Baghdad in 1978 and pledged to give the PLO \$300 million a year, but the National Fund reports that only Saudi Arabia is still paying its commitment of \$86 million. Donations other than formal Baghdad pledges also appear to have diminished, with most Arab support now confined to arming and training PLO fighters.

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Terrorism Unaffected

The increase in PLO-related violence over the past few years demonstrates that PLO leaders are making sure military preparedness remains high. Last year Arafat bypassed regular PLO channels to deposit Saudi aid directly into military accounts—an action for which he was publicly chided by the National Fund.

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Political Repercussions

The PLO's financial difficulties are forcing it to cut back on its traditional role as a social welfare organization for Palestinian refugees. In particular, the PLO is now less able to help Palestinians in Jordan, Lebanon, and the Israeli-occupied territories who have been hit by growing unemployment and reduced UN refugee services.

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Arafat is also suffering from the money shortage. His ability to control the PLO's purse strings has long been a major asset to his leadership, but the declining revenues are limiting his ability to dispense funds.

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he has begun to husband them more carefully, partly to emphasize his power but also to conserve reserves.

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Arafat's leadership probably will not be threatened soon by the shortage of cash, even though a financial turnaround is unlikely. The PLO's official assets and Arafat's probable private holdings remain much larger than those of any rebel group.

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